



Department of Energy
Germantown, MD 20874-1290

APR 18 1996

MEMORANDUM FOR DISTRIBUTION

Richard H. Nieman
FROM: RICHARD H. NIEMAN, ACTING DIRECTOR
OFFICE OF DEPARTMENTAL ACCOUNTING
AND FINANCIAL SYSTEMS DEVELOPMENT

SUBJECT: Procedures for Recording Write-Downs of Environmental
Processing Facilities

The requirement to prepare audited financial statements has necessitated the revision of accounting procedures for environmental legacy costs. During FY 1995, the Department accrued a \$198.5 billion environmental liability to recognize the cost of environmental problems resulting from the Department's past operations. The accrued liability was based primarily on the mid-range estimate identified in the 1995 Baseline Environmental Management Report. This accrual is one of the largest single unfunded liability amounts affecting the Government-wide financial statements being prepared by the Department of the Treasury.

Accounting for environmental legacy costs requires significant changes to our current accounting procedures. The most significant effect of these changes is that expenditures incurred to address legacy wastes are now reported as a reduction of the Department's accrued environmental liability rather than as an expense on the Department's operating statement. The procedures issued by my memorandum dated August 28th 1995, for recording environmental liabilities remain in effect. In accordance with these procedures, environmental liabilities related to the Baseline Environmental Management Report will continue to be recorded at the Headquarters level by the Departmental Accounting and Analysis Division.

New standard entries have been developed to enable field offices to write down capital assets for costs associated with the treatment, storage, and disposal of the Department's legacy wastes. Statement-level adjustments to write down these capital assets were made at the Headquarters level for the FY 1995 financial statements. The adjustments were based on the results of the field offices' analyses of environmental management processing facilities requested by the Deputy Controller's October 25, 1995, memorandum. Attachment 1 includes (1) standard entries to record these prior period - as well as future - write downs, (2) definition for a new contra account for construction work in progress, and (3) new budget and reporting codes that will be used for recording these entries. Post closing (summary class "CP") entries that must be made by field offices to record



the FY 1995 statement-level adjusting entries made at Headquarters are included as Attachment 2. These CP entries should be made by May 31, 1996.

Several field offices expressed concern that sufficient time was not available to permit a complete analysis of their environmental processing facilities. Also, the Inspector General did not review the analysis performed or resulting write-down as part of the FY 1995 audit. However, the Inspector General will cover this area as part of the FY 1996 audit. You should evaluate whether additional efforts are needed during the current year to determine if additional write-downs are necessary. Any additional write-downs should be processed as current year transactions in accordance with the entries provided in Attachment 1.

Questions regarding the attached standard entries or required CP entries should be directed to Rick Loyd (301) 903-4190.

Attachments

cc:

Deputy Controller, CR-2

P. Holbrook, IG-34

Deputy Associate Deputy Secretary for
Field Management, FM-1

Deputy Assistant Secretary for
Resource Management, DP-50

Director, Resource Management Division, NE-13

Office of the Deputy Assistant Secretary
for Planning and Resource Management, EM-10

Director, Office of Management, ER-60

Office of the Deputy Assistant Secretary
for Strategic Petroleum Reserve, PE-40

Assistant Secretary for Fossil Energy, FE-1

Director, Budget and Financial Management Division, EE-63